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Arizona Corporation Commission
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July 3, 2012

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Palo Verde Nuclear Generating Station Nuclear Performance Reporting Standard
Docket No. E-01345A-09-0506

Pursuant to Decision No.71310, APS is required to report on the following regarding
Regulatory Performance:

For any Greater than Green NRC violations, APS will submit a report to the
ACC, within 60 days of the NRC violation, describing the violation, planned
corrective action and the regulatory impact.

For any Palo Verde units in the Regulatory Response Column ("RRC") of the
NRC's Reactor Oversight Program Action Matrix Summary, APS will submit a
report within 60 days of being placed in the RRC to the ACC explaining the
cause of the unit being in a lower performance column and the corrective
actions planned to return the unit to the Licensee Response Column. APS will
provide an update within a semi-annual report on the status of the corrective
actions until the unit is returned to the Licensee Response Column.

The following information addresses these requirements:

When the issue (further described below) was identified in the NRC inspection report in
mid-February 2012 as a potentially greater than green violation, APS provided
preliminary briefings to the ACC. The information contained in this letter formally
communicates the final results of the Palo Verde investigation and NRC inspections on
this same subject.

On May 7, 2012, the NRC issued a violation to Palo Verde Nuclear Generating Station
("PVNGS") that was characterized as greater than green in significance for a security-
related issue that the station reported to the NRC on September 8, 2011. While the
issue was related to security requirements and compliance with NRC regulations, at no
time were plant operations or the health or safety of employees or the public affected.
Since the violation was security-related, the specifics associated with the violation and
the corrective actions to prevent recurrence of the violation are not being made
publically available by either the NRC or PVNGS.

Following the security-related issue reported on September 8, 2011, the NRC conducted an onsite inspection at PVNGS in late November 2011. Shortly after that inspection the NRC informed PVNGS that a violation of NRC requirements existed and the violation was potentially greater than green in significance. The NRC was also complimentary with regard to the extensive investigation, comprehensive corrective actions and progress in implementation of those corrective actions on the part of PVNGS. Further, as a result of the inspection, PVNGS was offered the opportunity to attend a Regulatory Conference to provide any other information that would be important to the proper characterization of the potential violation.

Palo Verde senior management representatives attended the Regulatory Conference with the NRC on April 4, 2012, and provided a summary of the station's assessment of the significance of the finding, the root cause of the issue and the corrective actions taken to prevent recurrence. The NRC assessed the PVNGS response to the issue, the investigation performed by PVNGS personnel and the corrective actions taken in response to the issue. Over the next month, the NRC deliberated internally and, in the end, determined the security-related issue was a violation of 10 CFR 73.21(a)(i) with a significance of greater than green.

Based upon the results of extensive investigation, comprehensive corrective actions and implementation progress, the NRC determined that no further PVNGS response to the violation was required. Additionally, the NRC determined the normal follow-up 95001 inspection had essentially been completed on the basis of the previously performed inspections, in-office reviews, and the Regulatory Conference presentation and discussion. Thus, no further inspection activities were necessary. Since the bulk of the inspection activities took place in the fourth quarter of 2011, and the site response was such that no further inspection activities were required, the NRC decided the greater than green violation would become effective in the fourth quarter of 2011 and would be carried in the security cornerstone of the NRC Action Matrix for four quarters.

To document the above decisions, on June 25, 2012, the NRC issued a supplemental inspection report on the security-related event. The objectives of the supplemental inspection were to provide assurance that (1) the root causes and the contributing causes for the significant issues were understood; (2) the extent of condition and extent of cause of the issues were identified; and (3) corrective actions were or will be sufficient to address and preclude repetition of the root and contributing causes. The report documented these objectives had been satisfied on the basis of the previously performed inspections, in-office reviews, and the Regulatory Conference presentation and discussion. Assuming no additional greater than green violations occur, the station will return to the Licensee Response Column at the end of the third quarter in 2012.

If you have any questions regarding this information, please contact Zachary Fryer at (602)250-4167.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey W. Johnson", with a small "sm" written to the right of the signature.

Jeffrey W. Johnson

JJ/cd